Asia Morning Bites

Reserve Bank of Australia (RBA) meets to decide on policy with the central bank likely keeping settings untouched. Meanwhile, Taiwan and the Philippines report their latest inflation readings

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Global macro and markets

- **Global markets:** US Treasury yields kept rising on Monday. Fed Chair Powell gave a TV interview in the US where he reinforced the message that a March rate cut was very unlikely, and was reported as saying that a first cut around the middle of the year was more likely. That ties in with our May cut forecast. 2Y UST yields rose 10.8bp to 4.47%, and 10Y yields rose 13.8bp to 4.158%. Only a few days ago, 10Y yields were down at 3.88%. EURUSD continues to decline, helped by the higher US yields, and is now at 1.0743. The AUD has declined to 0.6482, its weakest since mid-November 2023. Cable has dropped back to 1.2537, though the JPY has been steadier, just drifting slightly higher to 148.64, not much higher than yesterday. Asian FX took a beating yesterday, and will likely weaken again today. The THB weakened by 1.54%, the worst-performing currency in the Asia pack by far, rising to 35.8. The MYR and PHP also both weakened more than 0.6%. The CNH was steadier, only moving slightly higher to 7.2198 after a daily fix at 7.1070 provided support. US stocks didn't take the rise in yields well. The S&P 500 fell 0.32% and the NASDAQ fell 0.2%. Equity futures are giving no clear signal today. Chinese stocks took some solace from the latest pledges of support. The CSI 300 rose 0.65%, but the Hang Seng fell again, though only by

0.15%.

- **G-7 macro:** Apart from Powell, there wasn't much on the G-7 macro calendar. The ISM service sector index was released, and after the very weak employment index in December, showed a recovery back from 43.8 to 50.5. Whatever happened in December is now beginning to look like a seasonal blip. There is still some deviation from these indices and the GDP data. One of these is out of whack. The question is, which? We also got the latest Senior Loan Officers' Survey which showed banks incrementally tightening loan supply further, though at a slower pace. Demand for loans also weakened. This is also consistent with a slowdown in activity, though how dramatic is still an open question. Today, we have German factory orders and European retail sales. Both are expected to be very weak. There isn't any notable US data today.
- **Australia:** The Reserve Bank of Australia (RBA) will keep rates unchanged at its meeting today, and with Markets fully pricing in cuts by August this year, there may be a little pushback. The RBA has previously suggested that it would not hit its inflation target until much later in 2025, though it is only a stone's throw away from the top of its target now. We think the inflation data is getting a lot of help from base effects, which have now ended, so this could be an angle the RBA pushes today.
- **Japan:** Today's Japanese wage and spending data outcomes were a bit mixed. 1) Wage growth continued, but probably not strong enough to persuade the BoJ of the need for imminent policy action and 2) household spending fell more than expected. Nominal cash earnings rose 1.0% YoY in December, though this was less than expected, (vs revised 0.7% in November, 1.4% market consensus). The same sample scheduled earnings, a better measure for looking at the underlying earnings trend, rose 2.2% YoY, staying above 2% for four months in a row. We see this as an encouraging sign for the BoJ to make its first-rate hike in June. However, separate data on household spending was quite weak. Spending dropped 2.5% YoY in December (-2.9% in November, -2.0% market consensus), falling for the 10th consecutive month. This should be a concern for the BoJ as it is not a desirable situation for demand-driven price rises.
- **Taiwan:** The January CPI and PPI inflation data will be published today. Market expectations are for the CPI inflation to trend lower for the third consecutive month to 2.2% YoY, down from 2.71% YoY in December. This will be in part due to the Lunar New Year effect, which pushed January inflation numbers higher in 2023.
- **Philippines:** January inflation is set for release today. Market expectations point to inflation settling at 3.1%YoY, down from the 3.9%YoY in the previous month. Slower food inflation and a favourable base helped push headline inflation well into the central bank's 2-4% inflation target. Despite this moderation, we do not expect any changes from the Bangko Sentral ng Pilipinas (BSP) next week with Governor Remolona indicating he will likely keep policy sufficiently tight for some time.

What to look out for: RBA decision

- Japan labour cash earnings (6 February)
- Philippines CPI inflation (6 February)
- Australia RBA (6 February)
- Taiwan CPI inflation (6 February)
- Taiwan trade (7 February)
- US trade balance (7 February)
- Japan BoP balance (8 February)

- China CPI inflation (8 February)
- India RBI policy (8 February)
- US initial jobless claims (8 February)

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